BBVA | Research

Spain Economic Outlook

3RD QUARTER 2017 | SPAIN UNIT

Index

Closing date: **7 July 2017**

1. Editorial

GDP growth will be stronger than what was foreseen three months ago, due to the improved performance of the Spanish economy and the continuation of an environment that will facilitate the continuation of the recovery. In particular, we expect GDP to grow by 3.3% in 2017 and 2.8% in 2018, 0.3 and 0.1 pp more than foreseen in the last edition of the Spain Economic Outlook. If these forecasts prove to be correct, the unemployment rate could fall by more than **2 percentage points (pp)** on average per year to reach 15.3% in 2018. This would imply the creation of more than a million jobs in the two-year period and the recovery of two thirds of the jobs lost during the crisis.

The acceleration of growth was confirmed during the first half of 2017. The Quarterly National Accounts figures for the first quarter of the year were in line with BBVA Research forecasts of three months ago, showing a growth pace of 0.8% QoQ, more than that observed in the last two quarters of 2016. Also, the composition of domestic demand confirmed the lesser increase in private consumption, which was more than offset by the recovery in investment and the strong increase in exports. This led to a positive contribution from external demand. Data for the second quarter of the year point to this trend continuing, with GDP growth even accelerating to 1.0% QoQ. Behind this observation, there is an improvement in private consumption, driven by increased household wealth, a decline in the rate of savings and a credit rise. Also, the recovery of the real state market is consolidating, concentrated in places where external demand has acted as a support and in the major urban areas. The size of the adjustment seen over the past ten years in the housing sector ensures that this reversal of trends has an upward path without it implying a return to the imbalances seen in the past. For their part, exports continued to grow despite the negative effect of the depreciation of sterling, the slowdown in activity in the United Kingdom and Spanish dockworkers' labour disputes during the first half of the year. The continued strength of capital expenditure on machinery and equipment, together with the gains in competitiveness achieved over the past few years and the continuance of a favourable environment for tourism will help sales of goods and services abroad to continue increasing. Lastly, the aforementioned is happening in spite of the lack of significant contribution from public spending to the recovery as a result of the need to continue reducing the imbalance in the public sector accounts, which in turn is partly due to the delay in approving the Spanish General Budget for 2017.

The international environment that is relevant to the Spanish economy is improving thanks to the acceleration in world growth, the easing of political uncertainty in Europe, the fall in the price of oil and the continuation of loose monetary conditions. In particular, we have revised our GDP growth forecast for the euro area to 2.0%, from 1.7% three months ago. A large part of this improvement would already be reflected in the increase in Spanish exports observed in the first half of the year, which in itself would explain much of the recent acceleration in activity in the country. Apart from that, the results of the French elections reduced the uncertainty about the policies to be implemented by Spain's main trading partner. Also, although geopolitical tensions remain high, they do not seem to be affecting the price of oil, which has been somewhat lower than what was expected three months ago. Given that this behaviour seems to rather be due to increased supply than to lower demand, the effect on Spain's economy should be positive. Additionally, the expectation continues to be that interest rates will remain at all-time lows and that the ECB will gradually start to withdraw the current stimulus measures from 2018 on. Moreover, monetary policy is expected to continue supporting domestic demand for some considerable time longer. Thus, the loose lending conditions will continue to attract demand, while the solvency of the financial sector, which is continuously improving thanks to the process of consolidation and gains in efficiency under way, will ensure increasing supply.

The stance of fiscal policy will be practically neutral if the deficit target is met. The parliamentary process and the approval of the Spanish General Budget for 2017 did not entail significant changes relative to what was already known three months ago. Given the recent trajectory of the public accounts, meeting the target remains feasible, providing the cyclical improvement is allocated in full to reducing the deficit. This will require greater cost control, in view of the growing likelihood that certain items of tax revenue (personal income tax) will not behave in line with the state's forecasts. As regards the approval of the spending ceiling for 2018 and the new deficit targets for the government as a whole, the former makes the latter achievable. However, the likelihood of the individual targets being met is slim for certain parts of the public sector, and this will have a negative effect on the credibility of the process.

Although GDP growth figures have been surprisingly good, looking ahead we continue to see a gradual slowdown. This forecast is strengthened by the moderation in the increase in private consumption. Factors such as the exhaustion of the pent-up demand during the crisis, the reduced effect of certain tailwinds (oil prices, interest rates, tax incentives) and a low rate of household savings all point to growth in domestic demand possibly being somewhat less dynamic in the next few months. Apart from this, although there is still unutilised capacity in the tourism sector, it is unevenly distributed throughout the countrys, and we are starting to see signs of pressure on prices in some regions, which may slow the pace of visits by both residents and non-residents. Additionally, we are seeing a certain reversal of the process of non-energy import substitution that came about in the period immediately following the crisis. This is probably a result of factors such as changes in the productive model or the recovery in expenditure on durable goods. Both factors could limit the contribution of external demand in the next few months. Lastly, there is uncertainty about when we will start to see limits to the availability of workers with sufficient qualifications to fill the vacancies that will be generated in the Spanish labour market. Some estimates of structural unemployment in the Spanish economy point to this situation's possibly coming about within the next two years. If so, growth in employment would slow, further increasing inequality between those with jobs and those without. For now, the absence of wage pressures points to this level of structural unemployment not yet having been reached. In any case, this discussion highlights the need to implement reforms to improve the efficiency of the labour market and its fairness, given the still high levels of unemployment.

2. The positive global environment tends to stabilize

Robust, steadier global growth, with some rebalancing among the major areas

The world economy accelerated in recent quarters and has approached growth rates of 1% QoQ, **although it tends to stabilize** (see Figure 2.1)**. Confidence levels**, especially in the advanced economies, remain high, while the recovery in **world trade seems to have slowed down somewhat in April and May**. In line with this, there has also been an uptick in industrial activity and global investment.

This positive dynamic responds, primarily, to the effect of **the stimulus provided by China´s economic policy**, which has boosted its growth and with it, that of other Asian countries and the rest of the world. In addition, the global cycle has also benefited from the **extremely accommodating monetary policies** of most advanced countries, **fiscal policies that have recently become neutrals or expansionary and relatively modest commodity prices**. All this has come amid a calm environment in the financial markets, which have not suffered in a persistent way by the sources of political stress.

The recovery, which is mainly affecting the advanced economies, is accompanied by less dynamism in the **United States, offset by an improvement in Europe, both in terms of activity and the political scenario** – the new American administration's difficulties in adopting measures against overcoming electoral obstacles in Europe–. On the other hand, the **emerging economies have dperformed less promisingly**, with a slower than expected exit from the recession in Latin America (LatAm), and in a **more diverse** way, due to differing levels of dependence on commodity revenues.

This environment of positive growth is currently being partnered by **only modest inflation levels**. While the **risks of deflation appear to have passed**, the abundance of liquidity in the markets, as a result of very expansive monetary policies, has not been transformed into an acceleration in price increases (wages or core inflation). The remaining high level of unused capacity of resources could be behind this restraint - especially in the labour force - that seems to curb any significant acceleration of wages and core inflation, while in recent months **the delay and some reversals in oil prices (7% on average between 1Q17 and 2Q17) have held back expectations and general inflation rates**.

Favourable environment in financial markets and normalisation of monetary policies

The **stance in the financial markets has been upbeat**, with volatilities at historic lows despite the persistent economic, political and geo-political uncertainty, as well as the correction to expectations of a fiscal impulse in the USA. As a result, **long term interest rates have remained anchored, and the appreciation of the dollar has slowed.** This, together with a favourable economic environment, has **boosted equities, which favours emerging markets**. On the other hand, European assets, including the euro, have also become more appealing. Following the French elections and a context in which growth in the developed world is more favourable to Europe, capital flows into the eurozone have taken an about-turn.

The **big question is whether the markets are being too accommodating**, particularly bearing in mind that the major central banks are moving forwards into the normalisation process. In this context, central banks have begun to take steps to prepare the market for a gradual withdrawal of stimuli. For example, the **US Federal Reserve (Fed) has twice raised interest rates during the course of the year**, by a total amount of 50 basis points (bps), **and has communicated and detailed a phasing-out plan for its balance sheet** (another rise of 25 bps, probably in December, with the initiation of a "passive" reduction in the balance sheet, probably starting in October). However, in the absence of robust growth and with very contained price and wage inflation, market expectations are not aligned with those of the Fed (they are more bearish).

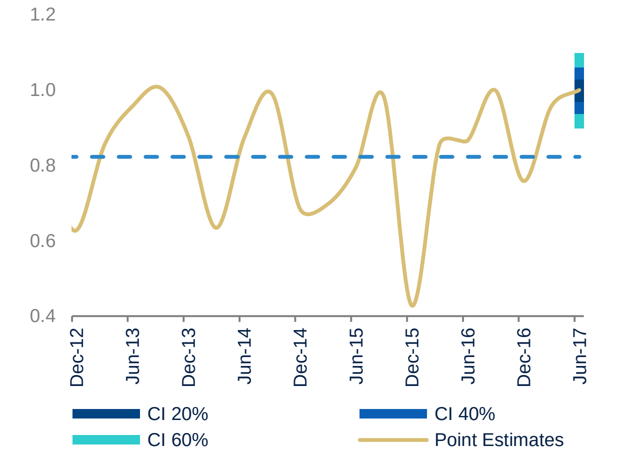
The European Central Bank **(ECB) is holding interest rates unchanged** (the refi rate at 0% and deposit rate at a negative level of -0.40%) and the asset purchasing programme (currently at 60bn euros a month). However, **it is more confident about the strength of growth and believes that the risk of deflation has disappeared, giving rise to the first changes in communication** (forward guidance). In June, the ECB eliminated the downward bias it had on Interest rates, which is interpreted as a first step in the long process of normalisation. **Moving forward, it is expected that the September meeting will announce a reduction in the pace of asset purchases (tapering) that would be effective as for January 2018.** Assuming that the central bank does not change the sequence in its exit process, interest rate rises will not take place until late 2018. Here, **a good communications strategy is key** to avoiding jitters in the financial markets, especially since they have been somewhat sceptical about any imminent normalisation.

The forecast of stable growth is maintained in 2017-18, with risks still on the downside

While **global growth forecasts remain at 3.3% for 2017 and 3.4% for 2018**, they have been **revised upwards both in China (in both years) and in Europe** (in 2017) due to a better than expected first half of the year, while **slightly correcting the US forecast downward** (see Figure 2.2). In LatAm, deteriorating commodity prices this year and increased domestic uncertainty in several countries make the exit from the recession slower than expected. These forecasts imply that in the coming quarters emerging economies should regain ground in respect to the advanced countries and China, which have spearheaded the recent upturn.

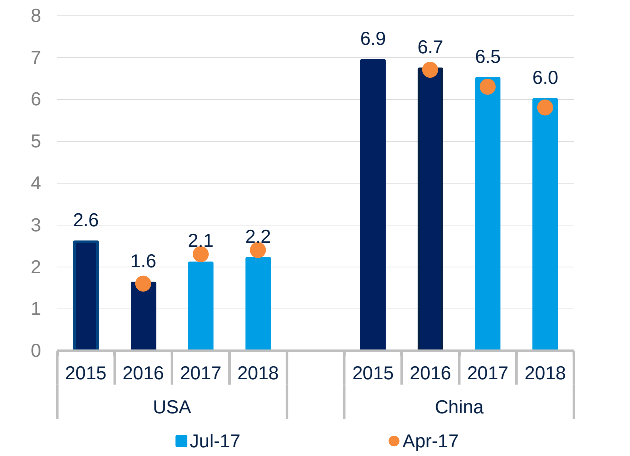
Likewise, the supports that have led to the recent acceleration will continue to be present, albeit with slight variations: **monetary policies will gradually enter a process of normalisation, while fiscal policies will remain relatively neutral or expansionary**; **oil prices**, which have delayed their progression towards long term equilibrium levels (USD60/bbl) due mainly to the rise in supply (from producer countries such as Libya, Nigeria and the US), **are set to continue to chart their rising course**; finally, the flurry of politically-related events (elections in Germany and Italy, Brexit negotiations, initiatives geared towards greater integration in the European Union, the political calendar in the United States, and the electoral cycle in LatAm in 2018) could influence economic confidence and the markets situation, although these seem to be having less lasting impact.

Figure 1. World GDP growth (QoQ, %)
Forecasts based on BBVA-GAIN



Source: IMF and BBVA Research

Figure 2. Regional GDP forecasts
(YoY, %)



Source: BBVA Research

United States: downward revision of growth in 2017-18 due to a lower likelihood of stimuli

The US economy's performance in **the first quarter of the year has been rather worse than expected**, despite the key growth drivers have not varied substantially. The political environment over the last few months has proved that any ambitious **economic stimulus measures are unlikely to be implemented** in the short term. **Forecast GDP growth is 2.1% in 2017 and 2.2% in 2018**, which is two tenths lower than predicted three months ago. The improvement of the global environment, expectations of somewhat higher oil prices and the dynamism of residential construction may favour an **uptick in investment. This** should offset, at least in part, the expected **moderation in private consumption,** given a more gradual improvement in the labour market and higher inflation than in recent years. In spite of this, price-rises have slackened off a little in the last few months, partly due to transitory factors, and clear signs of inflation pressure over the forecast horizon are still not discernible. We therefore expect the **Fed to continue to press ahead gently with its monetary policy normalisation process**, as has been mentioned. Uncertainty over the scenario remains high. Risks associated with more protectionist policy have diminished, but the implementation of the announced measures of economic policy still remains an unknown. An already long period of cyclical expansion that has started to see increased borrowing in certain sectors, as well as the lack of elbow room for demand policies, are increasing the vulnerability of the US economy.

China: the effect of economic measures underpins the growth target

Fallowing the rebound in growth observed earlier this year, the latest figures point to a **more gradual slowdown in China's economy than previously expected.** Behind this performance lies the support from a prudent monetary policy and fiscal stimuli, which have boosted credit and investment, although there has also been the improvement in the external environment and the depreciation of the effective exchange rate. In this context, the authorities **continue**

to seek the balance between maintaining growth, conducting orderly deleveraging and tacking financial vulnerabilities. Thus, a tightening of regulation on the real estate market and shadow banking with a monetary policy that is geared towards bias a tightening, yet with liquidity provision to limit the tensions on financial markets.

As a result of the recent improved performance, GDP growth forecast is revised upwards by around 0.2pp in 2017-18, which **would mean the authorities will achieve their target of 6.5% in 2017, although a slowdown to 6% in 2018 is still expected.** Inflation remains moderated, while industrial product prices, which had rocketed at the start of the year, are slowing down. This, together with low food prices and a tougher regulatory stance, has led to a **downward revision of the inflation forecast** to 1.7% in 2017 and 2% in 2018. Despite the ongoing macroprudential measures, **medium term risks continue to increase**, as **financial weaknesses stemming from a recovery based on rising debt among agents and favouring shadow banking**, while the process of adjustment in the growth pattern is still at a very slow pace.

Eurozone: clear improvements, but still with limitations

Economic growth has continued to **gain momentum in the first half of the year**, with GDP growth somewhat higher than expected, which has stand above 2% in annualised terms. Moreover, the improvement has been generalized both **among the different components in demand and among the different member states.** The stronger global demand has underpinned the rebound in exports which, together with improved confidence, is spurring investment and employment, while private consumption continues to increase at a solid pace. This, with the disappearance of deflationary risks, has led the ECB to start weighing up already-discussed measures for the normalisation of monetary policy, while fiscal policy will be slightly expansionary over the forecast horizon. As a result, **GDP growth forecasts are revised upwards by three tenths in 2017 up to 2%**, which represents a third consecutive year of increases in output above potential. This, together with the moderation of some of the growth supports, such as the appreciation of the euro, higher oil prices and the stabilisation of world growth, justify the expected **deceleration for 2018, down to 1.7%**.

Inflation eased off in the second quarter on account of energy price base effects, while core inflation rose by a couple of tenths and it remains at around 1%. **The lower increase in oil prices coupled with a slightly more appreciated euro, has lead to a downward revision in the headline inflation forecast (-0.2pp to 1.6%** in 2017 and 1.4% in 2018), **although it remains unchanged the expected steady rise in the core inflation** (to an annual average of 1.1% this year and 1.4% in 2018).

Domestic risks, which are still biased downwards, have diminished (particularly those of a political nature). Even so, the Brexit negotiations, the handling of certain banking problems and the popularity of anti-euro election options in countries like Italy (with elections in early 2018) are sources of risk.

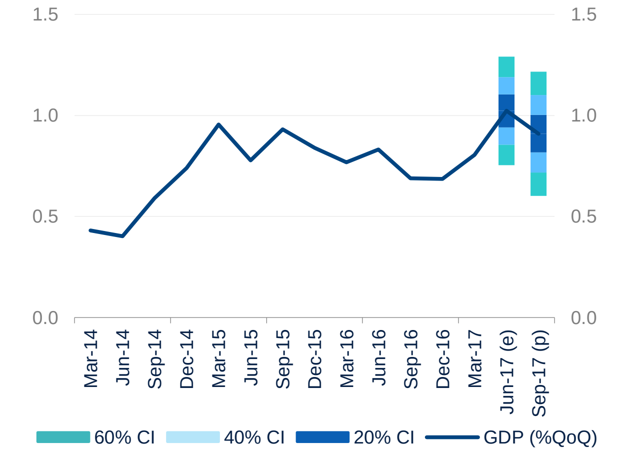
3. Growth outlook for the Spanish economy

The recovery accelerates in the first half of 2017

The information available at the closure of this report suggests that **the Spanish economy grew 1.0% QoQ in the second quarter of 2017 (forecast using the MICA-BBVA model).** If this estimate is confirmed, the increase in activity between April and June would have reached the higher level expected at the beginning of the quarter (MICA-BBVA: between 0.8% and 1.0% QoQ), and would improve by 0.2pp to the increase registered in 1Q17 (0.8% QoQ).

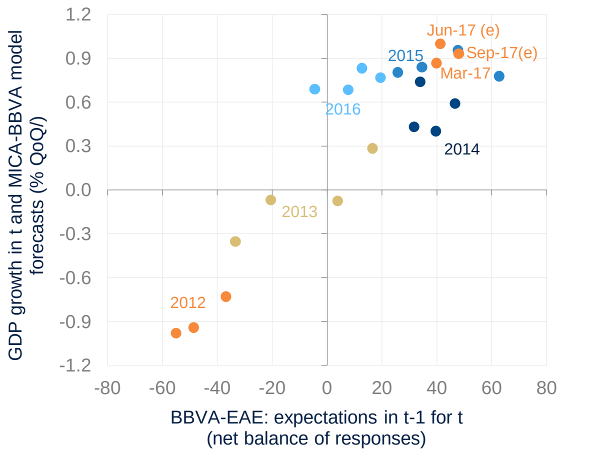
Looking at the third quarter, BBVA Research's real-time forecasts indicate that the recovery will continue at a similar or even faster pace than what was registered in 1Q17 (MICA-BBVA model forecast between 0.8% and 1% QoQ) (see Figure 3.1). This rate of growth would be in line with the results from the BBVA Economic Activity Survey (EAE-BBVA)[1], which evidence a stabilising of growth expectations (see Figure 3.2).

Figure 3.1 Spain: observed GDP growth and forecasts of the MICA-BBVA Model (% QoQ)



(e): estimated.
(p): projected
Source: BBVA Research, based on INE figures

Figure 3.2 Spain: economic growth and expectations of participants in the BBVA-EAE in the previous quarter



(e): estimated.
Source: BBVA Research, based on INE figures

Consumption and investment drive domestic demand

The good performance of household financial wealth, together with the balance of partial spending indicators[2], income and confidence, suggest that private consumption growth is recovering after having slowed in 1Q17 (0.4% QoQ). Thus, **household spending could have increased by around 0.3 pp to 0.7% QoQ (2.5% YoY) in the second quarter** (see Figure 3.3).

1: For details on the BBVA Economic Activity Survey (EAE-BBVA), see Box 1 of the Spain Economic Outlook journal for the second quarter of 2014, available at: http://goo.gl/epUinr
2: New private car registrations have recovered after falling for two quarters, although the consumption of services and domestic sales for large companies slowed down, as did retail sales.

With regard to public demand, a continuity of the sluggishness observed since the end of 2016 is expected. Specifically, available data on budget execution suggests that **actual final consumption of all Public Administrations could have stagnated in 2Q17 (0.0% QoQ; 0.7% YoY),** after growing 0.3% QoQ in the first quarter.

On the side of **investment in machinery and equipment**, the partial indicators[3] suggest that, following the strong growth of the first months of the year (3.1% QoQ), **this share of the demand would have moderated its growth to 0.9% QoQ (4.0% YoY) in 2Q17**. However, these growth rates would confirm that the weakness shown during the second half of 2016 was likely to have been temporary.

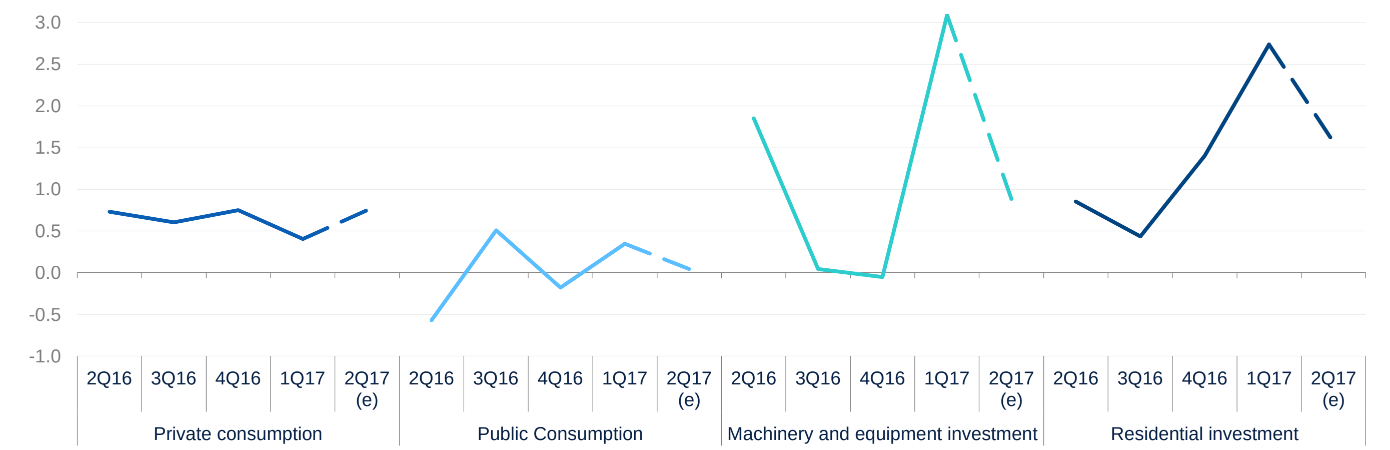
Meanwhile, available information[4] indicates that **residential investment is expected to have grown by 1.6% QoQ (6.3% YoY) in 2Q17**, suggesting a consolidation in the pace of recovery in the real estate sector. On the other hand, BBVA Research estimates that, after three quarters of negative or zero growth, **investment in other constructions is expected to have rebounded in 2Q17 (1.0 QoQ, 1.4% YoY)**.

Domestic demand continues to drive growth

In summary, partial indicators suggest that in 2Q17 **domestic demand would have contributed 0.7pp to quarterly increase of GDP**, thanks to the advance in private consumption and the main items of investment and despite the lack of contribution by public consumption.

3: All indicators except those for the industrial vehicles sales point to positive performance in 1Q17
4: It is worth highlighting the increase in employment in the construction sector, which continues to grow.

Figure 3.3 Spain: growth observed and forecasts of the major components of domestic demand (% QoQ)



(e): estimated.
Source: BBVA Research, based on INE figures

Trade flows remain at healthy levels, despite growth moderates

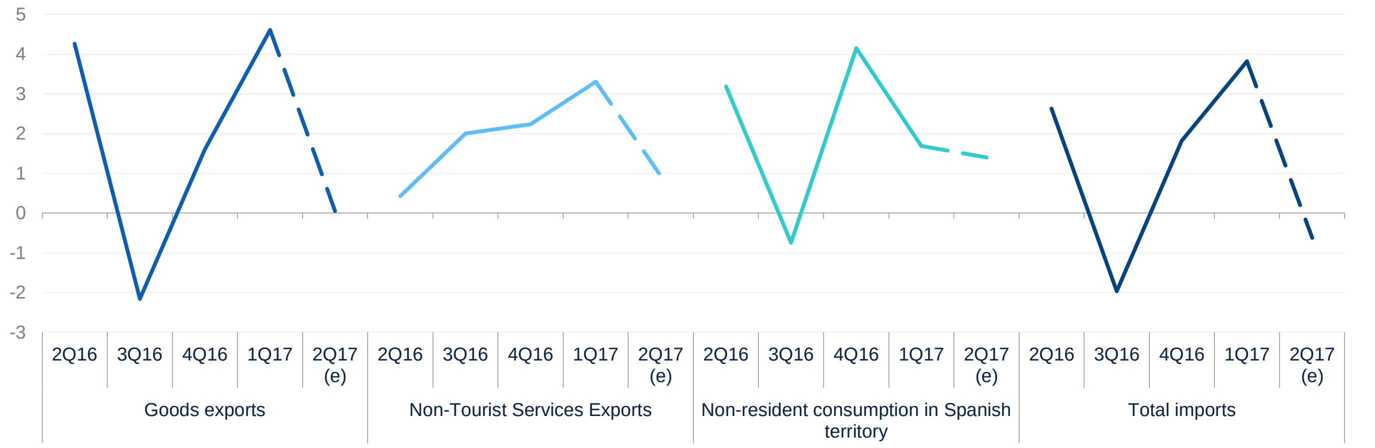
External demand looks to have contributed 0.3pp to growth in 2Q17

During the second quarter of 2017 exports would have moderated their growth, due in part to the base effect generated by the strong rebound observed at the beginning of the year (4.6% QoQ in 1Q17). In particular, available indicators[5] suggest that **exports of goods would have stagnated (0.1% QoQ, 4.0% YoY) and services would have decelerated (1.1% QoQ, 7.9% YoY) in 2Q17** (see Figure 3.4).Regarding the latter, the known information indicates that foreign tourism is still rising[6], so that the consumption of non-residents in national territory is expected to have increased by 1.4% QoQ (6.6% YoY), while exports of non-tourism services would have grown by 0.9% QoQ (8.7% YoY). In this way, **total exports could have risen by 0.4% QoQ (5.2% YoY) in 2Q17**, 3.6 pp less than in 1Q17.

In line with the deceleration of exports, the information available at the closure of this edition suggests that **imports would have been corrected downward during 2Q17 (-0.6% QoQ, 3.3% YoY)** after rebounding the previous quarter (3.8% QoQ, 6.4% YoY). Thus, **a positive contribution by net external demand to the Spanish economy growth of 0.3pp in 2Q17 is estimated**, similar to that registered since the beginning of 2016 (0.2pp as a quarterly average since 1Q16).

5: Although the export order portfolio improved between April and June, the available information on the trade balance points to a stagnation of sales of goods abroad in 2Q17, which is in line with the slowdown observed in exports of large companies.
6: Overnight hotel stays by non-resident tourists grew by 1.1% MoM SWDA on average in April and May. On the other hand, the registered inflows declined marginally (-0.3% MoM SWDA on average). Meanwhile, balance of payments revenues from tourism fell 1.7% MoM SWDA in April.

Figure 3.4 Spain: growth observed and forecasts of the major components of external demand (% QoQ)



(e): estimated.
Source: BBVA Research, based on INE figures

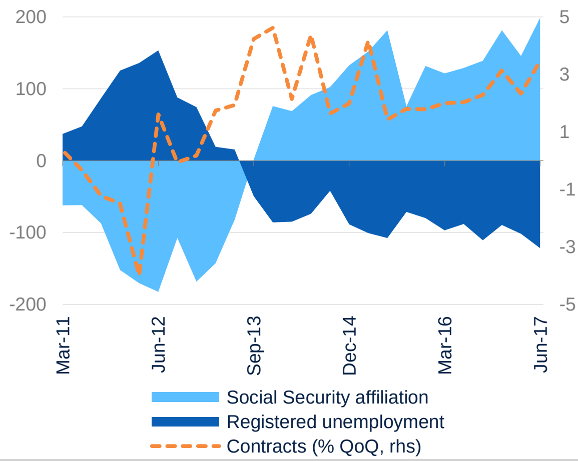
The labour market recovery gains traction

Allowing for variations caused by seasonal factors, **Social Security affiliation increased by 1.1% YoY in the second quarter**, three tenths more than in the first quarter (see Figure 3.5). The momentum in recruitment also increased (up 1.1 points to 3.5% QoQ SWDA), due an upswing in temporary contracts (up 1.3 points to 3.6% QoQ SWDA). Likewise, the decrease in registered unemployment accelerated six tenths to -3.4% QoQ SWDA, due above all to the positive performance of the services sector.

Employment increases, but the unemployment rate remains high

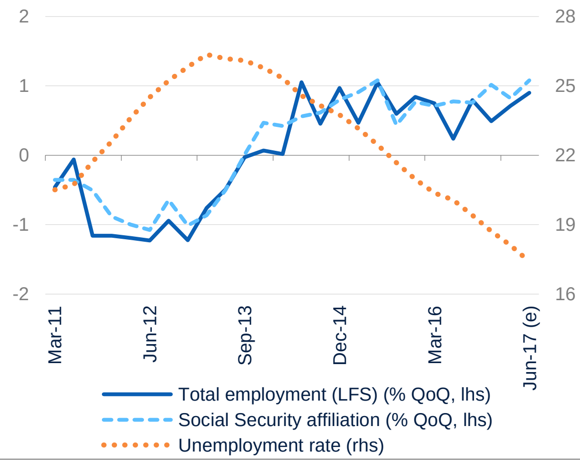
Given the evolution of the records, **it is expected that the Labour Force Survey (LFS) for the second quarter of 2017 will show an increase in employment**. BBVA Research's estimates suggest that employment may have increased by about a point between April and June in seasonally adjusted terms compared to 0.7% QoQ SWDA in 1Q17. Given that the size of the labour force is expected to hardly vary, the unemployment rate will fall by seven tenths to 17.4% SWDA (see Figure 3.6).

Figure 3.5 Spain: labour market levels (SWDA figures. Quarterly variation in thousands of people, except where indicated otherwise)



Source: BBVA Research, based on Ministry of Employment and Social Security figures

Figure 3.6 Spain: labour market indicators (SWDA figures)



(e): estimated.
Source: BBVA Research, based on Ministry of Employment and Social Security and INE figures

Headline inflation is slowing, while core inflation is holding steady at moderate levels

After reaching a peak in the first quarter, **headline inflation decelerated during the second quarter, reaching 1.5% YoY in June, according to the leading indicator**. Behind the moderation is the lower upward pressure on energy prices, which mainly responds to the absorption of the base effect generated by the fall recorded at the beginning of 2016. **Meanwhile, core inflation has remained moderated** and, according to BBVA Research estimates, could close June at around 1.0% YoY.

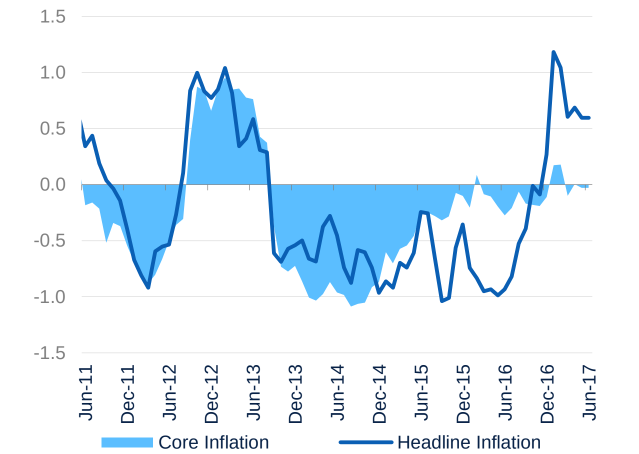
Gains in price-competitiveness are moderated

Accordingly, BBVA Research estimates indicate that **the headline inflation differential with respect to the eurozone is slightly unfavourable (0.6 pp)**, while in terms of core inflation it remains virtually unchanged (see Figure 3.7).

Salary demands have increased during the first half, but moderately. As in 1Q17, the average wage increase agreed in collective bargaining agreements until May barely exceeded 1.2% YoY in the revised multi-year agreements, and was moderated to 1.5% in those signed during the year, relating to 538,400 workers[7]. As can be seen in Figure 3.8, the average increase in wages up to February was less than the 1.5% figure set as a maximum limit in the 3rd Agreement for Employment and Collective Bargaining (AENC) for the previous year[8].

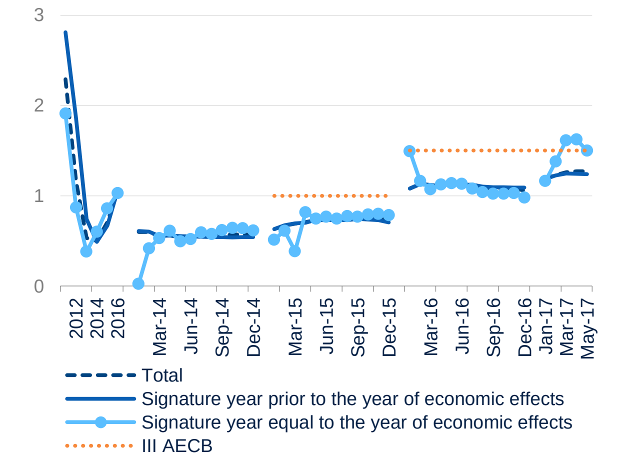
7: The number of workers covered by collective agreements surpassed 4.4 million to May, including those affected by agreements signed prior to 2017 (3,909,000). This figure is 7.6% lower than that recorded up to May 2016, and suggests the delay in the approval of the new AENC is leading to the postponement of some agreements.
8: The 3rd Agreement for Employment and Collective Bargaining, signed in early June 2015 by CEOE, CEPYME, CCOO and UGT, sets limits on the wage increases agreed in collective bargaining agreements. In 2015 they were not allowed to exceed 1%, and in 2016 the figure is 1.5%. The increase in 2017 will depend on the development of GDP growth in 2016 and the government's macroeconomic forecasts.

Figure 3.7 Spain: inflation differentials with respect to the eurozone (% YoY)



Source: BBVA Research, based on INE and Eurostat figures

Figure 3.8 Spain: average wage increase agreed in collective agreements (%)



Annual data include agreements registered after December each year and incorporate the review using the wage guarantee clause.
(*) Data for 2015 and 2016 are provisional. The figures from 2013 onwards are not strictly comparable with those of previous years.
Source: BBVA Research, based on Ministry of Employment and Social Security figures

New lending to companies begins to recover

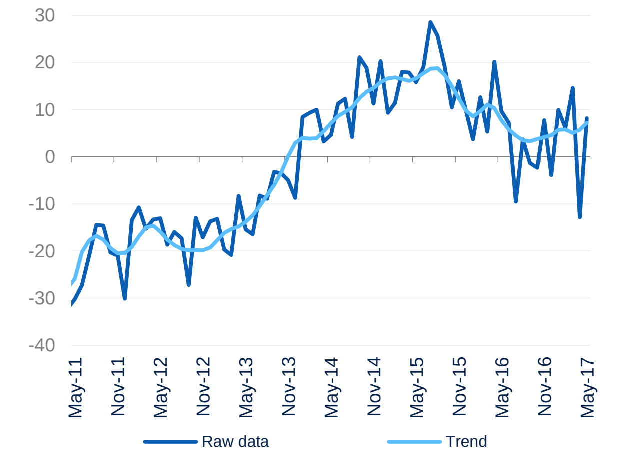
Credit flows return to a positive trend

Private sector credit stock moderated its fall at the end of the first quarter of 2017 (-2.1% YoY in March, compared to -3.8% YoY at the end of 2016). At the same time, **new transactions were again positive** (1.9% YoY accumulated in January-May), due to a smaller drop in financing operations for companies amounting to more than €1 million (-2.4% YoY accumulated in January-May). This evolution corresponds to the depletion of factors that discouraged growth in corporate credit in 2016: an environment of national and international uncertainty and a reduction in corporate debt. **On the retail side (households and SMEs[9]), credit declined** during the first five months of 2017 (4.5% YoY accumulated in January-May), due in part to the base effect derived from the refinancing of portfolios by eliminating the "floor clauses" between January and May 2016 (see Chart 3.9).

Moreover, the price of new credit has remained at minimum levels (see Figure 3.10) favoured by the reduction in the Euribor, the containment of sovereign risk, the improved liquidity conditions for banks (thanks in part to the ECB auctions) and lower credit risk faced by banks. However, in some portfolios there is evidence that a minimum threshold has been reached in an context of tightening interest margins. On the other hand, the rates for housing acquisition (2.17% APR in May 2017, 17 bps less than a year ago), show a clear resistance to a continuing decline as a result of the growing importance of fixed rate mortgages. According to this indicator, which includes commissions, Spanish mortgage loans continue to be cheaper than those of many other European countries such as France and Ireland.

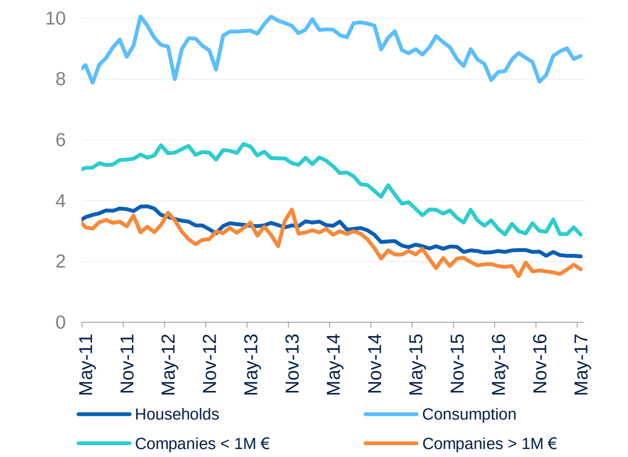
9: The lending to SMEs is close to that because of what was granted in amounts below €1 million

Figure 3.9 Spain: new retail sector credit transactions (% YoY)



Source: BBVA Research, based on Bank of Spain figures

Figure 3.10 Spain: interest rates on new lending (% APR)



Source: BBVA Research, based on Bank of Spain figures

2017-2018 scenario: upward revision of growth prospects

The fundamentals of the Spanish economy continue to confirm the recovery over the current biennium. In fact, the information known at the time of writing this report forces to make an upward revision of the growth estimates for both 2017 and 2018. Thus, **the current year would end with a GDP growth of 3.3%, and the economy would decelerate to 2.8% by 2018** (see Table 3.1).

Balanced composition of growth

The recovery of activity and employment will continue to be supported by both internal and external factors. The growth of the global economy (3.3% in 2017 and 3.4% in 2018) will favour Spanish exports, despite the uncertainty regarding Brexit or US trade policy. The positive trend in exports, together with low oil prices, expansionary monetary policy, domestic fundamentals and the gradual correction of structural imbalances, will support the advance of domestic demand. However, the small push that will be exerted by some of these key factors - such as fiscal and monetary policies - justifies the expectations of a smooth slowdown over the course of the biennium.

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Table 3.1 Spain: macroeconomic forecasts

(% YoY unless otherwise indicated)	1T17	2T17(e)	2015	2016	2017 (p)	2018 (p)
National Final Consumption Expenditure	1.9	2.1	2.6	2.6	2.2	2.3
Private Consumption	2.5	2.5	2.9	3.2	2.7	2.4
Public Consumption	0.1	0.7	2.0	0.8	0.8	1.9
Gross Fixed Capital Formation	3.8	3.6	6.0	3.1	4.4	4.8
Equipment and Machinery	5.0	4.0	8.9	5.0	5.1	4.6
Construction	3.0	3.2	4.9	1.9	3.7	4.7
Housing	5.5	6.3	3.1	3.7	6.5	6.4
Other Buildings and Constructions	0.7	0.5	6.4	0.4	1.2	3.0
Domestic demand (*)	**2.2**	**2.4**	**3.3**	**2.8**	**2.6**	**2.7**
Exports	8.4	5.2	4.9	4.4	7.0	4.9
Imports	6.4	3.0	5.6	3.3	5.3	5.2
External balance (*)	**0.8**	**0.8**	**-0.1**	**0.4**	**0.7**	**0.1**
Real GDP at market prices	**3.0**	**3.2**	**3.2**	**3.2**	**3.3**	**2.8**
Nominal GDP at market prices	**4.1**	**3.9**	**3.7**	**3.6**	**4.5**	**5.3**
Total employment (LFS)	2.3	2.9	3.0	2.7	2.9	2.7
Unemployment rate (% Labour Force)	18.8	17.4	22.1	19.6	17.1	15.3
Full-time equivalent employment (FTE)	2.5	2.7	3.0	2.9	2.7	2.3

(*) Contributions to growth.
(e): estimated; (p): projected.
Source: BBVA Research based on INE and Banco de España

The global environment for the Spanish economy has improved

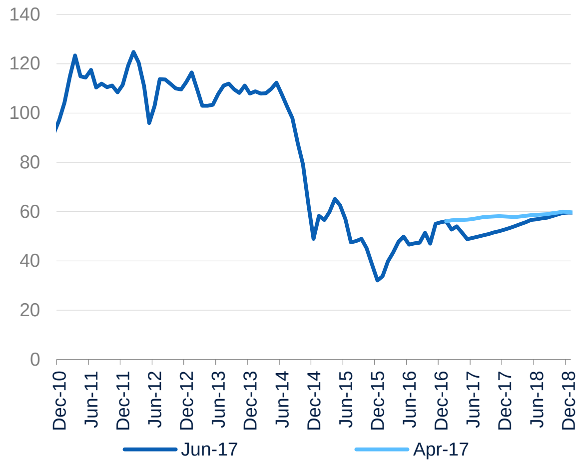
Despite the expected appreciation in the exchange rate of the euro, **the estimated growth in the eurozone for 2017 has been revised slightly upwards** (by 0.3pp to 2.0% in 2017) and will be sustained for 2018 (1.7%). BBVA Research estimates suggest that this improvement in expectations of European demand could be translated to the Spanish economy at a rate of one to one.

In addition, the price of oil has begun to moderate its upward trend, with the Brent rate approaching around $48 per barrel at the close of this publication(see Figure 3.11). Available information indicates that the bulk of the correction in upward expectations corresponds to an expansion of supply and, consequently, **could have a net positive impact on activity**[10]: it would expand the disposable household income and improve corporate margins, which would stimulate both demand and aggregate supply. If the fall in fuel prices were related to a reduction in activity worldwide, the expectations would not be so optimistic.

10: OPEC's efforts to stabilise the market continue to be limited by the increase in production in other exporting countries, highlighted by unconventional crude oil production in the United States (shale oil).

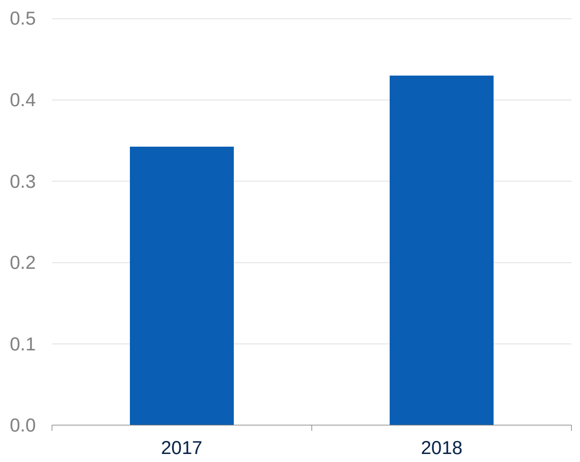
However, BBVA Research forecasts that prices will be around US$52 and US$56 per barrel in 2017 and 2018 as an annual average, 9% and 4% below the values estimated three months ago. This downward revision represents a positive bias for growth which, on average, could reach 0.4pp during the current biennium (see Figure 3.12)[11].

Figure 3.11 Oil price scenarios
(US$ per barrel Brent)



Source: BBVA Research based on Bloomberg

Figure 3.12 Spain: impact of downward revision of the price of oil caused by increase in supply
(deviation of annual growth in pp from base scenario of six months ago)



Source: BBVA Research

The ECB prepares the way out: when and how?

The sustained recovery of activity in the euro zone, coupled with rising inflation (and expectations) and moderation of the political risk, provide a **favourable environment for the European Central Bank (ECB) to initiate the withdrawal of its stimuli**. As a first step, the ECB has changed its risk balance on growth (from bearish to neutral) and on inflation, assuming that the risk of deflation has virtually disappeared. Consequently, the bearish bias on interest rates has been removed, while levels remain at historically low rates (the refinancing rate at 0% and the deposit rate at -0.40%) and continues with the asset purchase programme (QE). Therefore, monetary policy remains very accommodative and the monetary authority has a long path to retrace, which in any case will be gradual and will continue to be conditioned by the evolution of the economy and the risks.

After the summer, **the ECB is expected to report a reduction in the asset purchase programme from next year**. Predictably the reduction will be gradual and conditional on the performance of the economy, so that the current monthly purchases of €60 billion could be reduced to €15 billion, ending in the middle of 2018. The next stage, probably a few months later, will be to raise interest rates. As the ECB joins the Fed in withdrawing monetary stimuli, there is likely to be increased volatility in the financial markets. In this context, the design and communication of the exit strategy will be particularly important.

11: For details about estimating the effects of oil prices by type of shock on activity and prices in the Spanish economy, see Box 1 of the Spain Economic Outlook journal for the second quarter of 2011, available at: https://goo.gl/iijivP

Bank financing flows will return to the path of growth

Going forward, a recovery in the credit flow is expected, for reasons of both demand and supply. The demand for credit will be stimulated by the positive trend in activity, both domestically and internationally, and by the still-low interest rates. On the supply side, positive contributions will be felt because of improvements in liquidity conditions (thanks to the banking union and the ultra-expansionary policy of the ECB) and lower portfolio risk.

The expansionary stance of fiscal policy moderates and public demand grows

The consolidation of the economic recovery together with the regulatory changes in taxation approved in the last quarter of 2016 are bolstering tax collection, which will favour an increase in public spending. However, the need to reduce the public deficit to meet the targets will keep **real public consumption growth rates below those of GDP during the 2017-18 biennium** (0.8% YoY in 2017 and 1.9% in 2018).

On the other hand, the strong adjustment in public investment observed in recent years suggests a progressive recovery of the same in the medium term. In this way, **investment in other constructions is expected to register a growth rate of 1.2% in 2017 and to accelerate to 3.0% in 2018**, driven both by non-residential private investment and by the prospects of progressin public works, once the protocol of excessive deficit has been fulfilled.

Investment leads the recovery of domestic demand

The growth in household consumption will slow to 2.6% in 2017 and 2.4% in 2018, mainly due to the moderation of some transitional stimuli in force until 2016, such as the tax rebate, the Efficient Vehicle Incentive Programme (PIVE from its Spanish initials), the pent up demand and the notable drop in energy prices[12].The fundamentals of spending are expected to continue to show signs of strength, although the rebound in inflation will moderate the rise in income and wealth in real terms. Job creation will boost the disposable income of families, and the recovery of housing prices will increase real estate wealth. The net financial wealth will also contribute to the increase in spending, and will do so in greater amounts than in 2016 given the favourable evolution of stock prices.In addition, consumer finance will continue to grow, supported by still-low interest rates. Finally, the improvement in households' perception of the economic situation in the first half of the year suggests a greater willingness to consume during the second half, although the downward path of the savings rate is limited.

Investment in machinery and equipment will continue to grow during the current biennium. The need to satisfy increasing external demand, coupled with the recovery of domestic demand, will continue to drive this spending item. Also, the maintenance of oil prices at relatively low levels and the environment of reduced interest rates will increase the savings of companies and will favour the expansion of the installed capacity of the firms. For this reason, while also taking into account the exceptional performance during the first quarter, **the growth forecast of investment in**

12: A detailed analysis of the trend in household expenditure by product type can be found in the Consumption Outlook journal covering the first half of 2017, available here: https://goo.gl/zGqZ7W

machinery and equipment in 2017 has been revised upwards by 1.5pp to an annual 5.1%, while that of 2018 is being maintained at around 4.6%.

The recovery in investment is consolidated

Investment in housing will continue to advance in its recovery. Demand for housing is expected to grow slightly more than what was expected three months ago, thanks to the expected improvement in confidence, disposable income and financial wealth of households. In addition, and despite the interest rate hike expected by the end of 2018, the cost of financing will remain at reduced levels in the forecast scenario. All this under the increasingly widespread perspective of a revaluation of house prices in the coming quarters. Thus, it is expected that real estate developers and construction firms will continue to start new works, especially in areas with a more active economy and those where the oversupply has been most reduced. In this context, **residential investment is expected to grow by 6.5% in 2017, 2.2pp more than in the previous scenario. A greater dynamism that will be noticed also in 2018**, where the growth of this item has been revised upward by 0.7pp to an annual of 6.4%[13].

The growth in trade flows will remain strong during the current biennium

The improvement in growth expectations for Europe, coupled with expectations of recovery in emerging markets (mainly in Latin America), supports the forecast of strong demand for Spanish exports in an environment of low oil prices. However, there remains an inherent uncertainty regarding Brexit and US trade policy, where growth has been revised slightly downward (to 2.1% in 2017 and 2.2% in 2018).

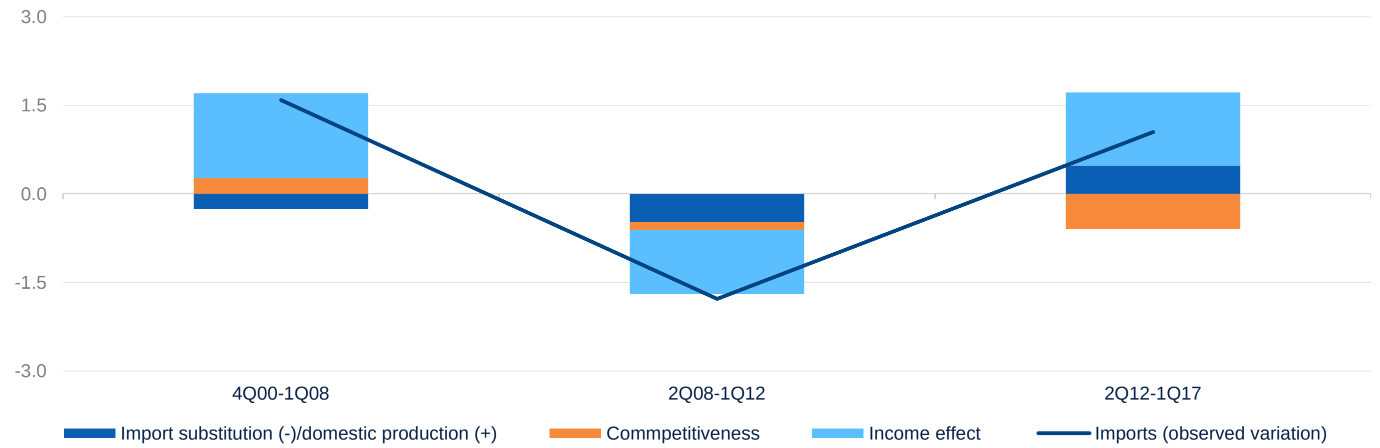
Export dynamism is confirmed

In this context, and taking into account the strong growth in 1Q17, **the forecasts for foreign sales for 2017 have been revised upwards and are maintained for 2018.** Total exports are expected to grow 7.0% this year (1.2pp more than what was forecast three months ago) and 4.9% next year. In particular, it is estimated that the sale of goods abroad will grow at an average rate of 5.9% during the current biennium, while consumption by non-residents will grow at an average rate of 5.5%.

The expected evolution of the final demand will lead again to a **big increase in purchases from abroad during the current biennium (average for the two years: 5.4%).** In fact, BBVA Research estimates suggest that the import substitution process observed during the recession may be reversed[14]: during the recovery, higher revenues and an increased propensity to import have reactivated purchases of goods from abroad, despite the fact that competitiveness-price improvements in the Spanish economy continue (see Figure 3.13).

13: For further details, please see the upcoming July 2017 edition of Spain Real Estate Outlook
14: Substitution Box... The crisis brought with it a reduction in imports due to the decline in national income and wealth, price competitiveness gains and a greater willingness to consume domestic goods

Figure 3.13 Spain: Breakdown of growth in non-energy imports



Source: BBVA Research, based on INE figures

In any case, the expected growth in imports will not compensate the increase in exports in 2017, so the **contribution of net external demand to growth will be positive** (0.7pp of GDP, **while in 2018 it will be marginally negative** (-0.1pp). The foregoing, together with persistently low oil prices, will help maintain the **current account balances positive (average:** 2.0% of GDP during this period).

The unemployment rate will fall by more than four points in the biennium

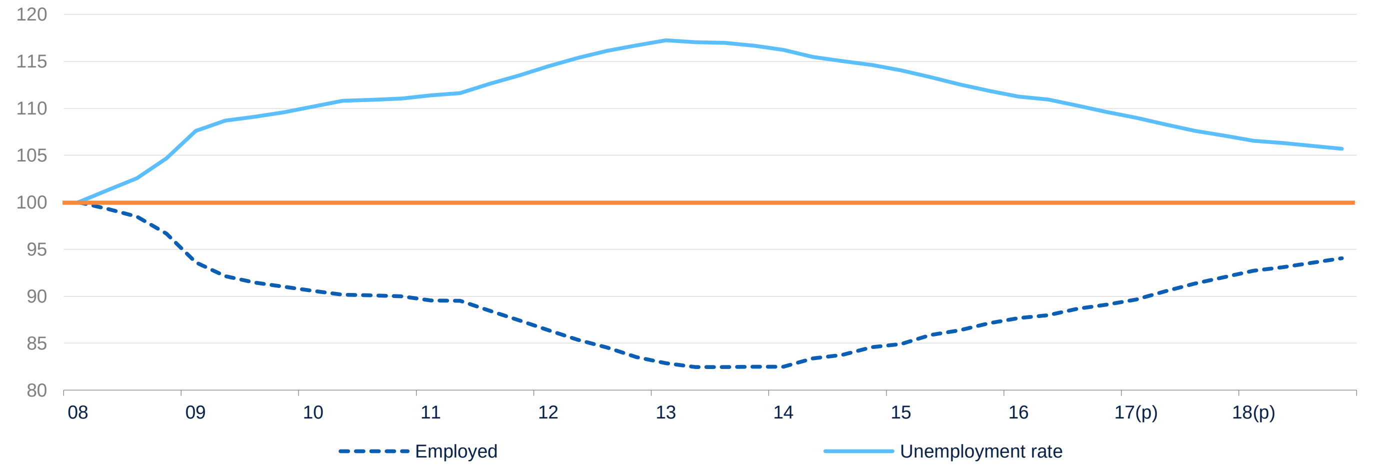
One million jobs will be created throughout 2017 and 2018

The favourable evolution of economic activity foreseen for 2017 and 2018 has resulted in greater job creation than the expected three months ago. Thus, employment is expected to increase on average by 2.9% this year, two tenths more than in 2016. Given the expected flatness of the labour force[15], growth in employment will translate into a decrease of 2.5pp in the unemployment rate to 17.1%. Employment will continue to increase at a similar rate in 2018, by 2.7%, while the unemployment rate will fall to 15.3%.

However, the labour market expected dynamism will not be enough to recover pre-crisis levels. As Figure 3.14 shows, in the fourth quarter of 2018 employment will be about 6% lower than at the beginning of 2008, while the unemployment rate will be six points higher. In addition, the expected development of activity and full-time equivalent employment – which will increase by around 2.5% on average in the 2017-18 period – suggests a very small rebound in the growth of apparent productivity of labour to 0.5% in 2018.

15: In line with what was discussed in 2Q17's Spain Economic Outlook, it is expected that the rate of decline in the active population will slow to -0.3% in 2017 and increase by 0.5% in 2018, almost a full point less than the historical average growth.

Figure 3.14 Spain: level of employment and unemployment rate (1Q08 = 100, figures SCA)



(p): projected.
Source: BBVA Research, based on INE figures

Core inflation will remain stable and moderate

Headline inflation will be below the target set by the ECB for the monetary area

The deceleration of inflation in the second quarter confirmed that the factors that pushed it upward in the first quarter (adverse weather and the base effect on energy prices) were of a temporary nature. If this trajectory continues, **2017 will close with an average annual inflation of 1.9%**, 0.2pp less than the forecast made three months ago, given the downward revision of the oil prices. On the other hand, domestic fundamentals and monetary policy support a stable trajectory for core inflation (1.1% annual average growth for 2017), which, in any case, are still not experiencing second round effects after higher commodity prices and the increase in the Minimum Inter-Professional Salary (SMI from its Spanish initials) at the start of the year[16]. In 2018, core inflation will grow gradually (an annual average of 1.5%) which, together with the absorption of the base effect on energy prices, will place headline inflation at 1.7%.

If these forecasts prove correct, the headline inflation differential with respect to the eurozone, in favour of Spain for the past three years (-0.5% on average), will become unfavourable in the current biennium (0.3% on average). In terms of the underlying component, the differential will remain closed.

The budgetary targets are achievable

BBVA Research forecasts a growth in tax revenue that is based on both the cyclical recovery of the tax bases and the tax increases at the end of 2016[17]. On the expenditure side, it is expected to continue to adjust throughout the current

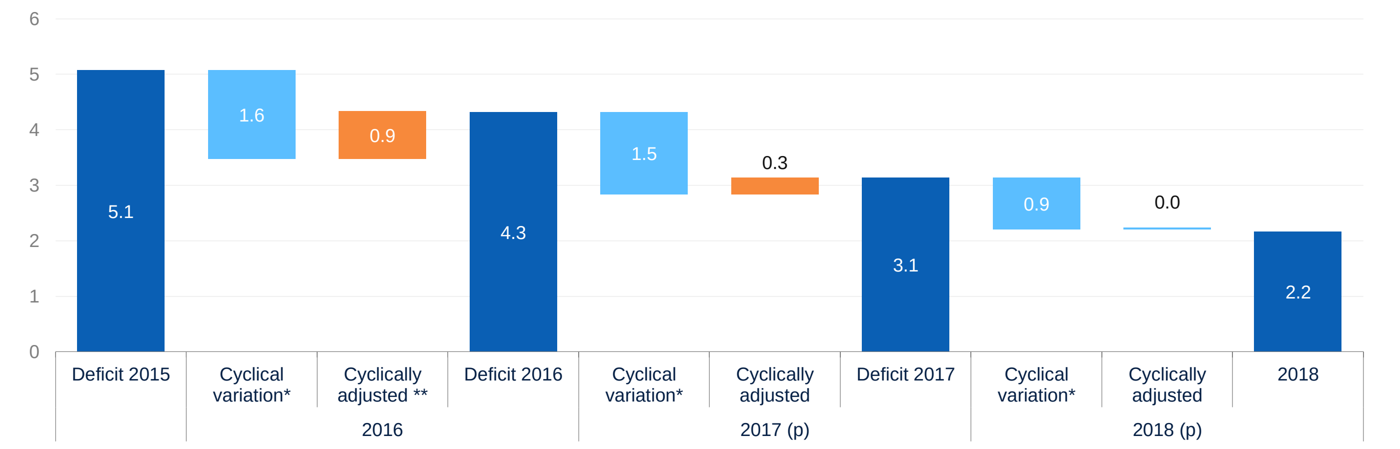
16: The direct repercussions of the legal minimum wage increase on economic activity and prices is limited, even if companies passed on the increased labour costs in end prices in full. However, the consequences may be significant in the medium term if there are second-round effects resulting from this minimum wage rise. For further details, see the economic observatory report "Repercussions of the legal minimum wage increase in Spain", available at https://goo.gl/6cwhCV
17: In December, among other measures, new limits were introduced to the deductibility of certain elements of the corporate tax base were approved, the application of inheritance tax was extended throughout 2017 and the tax rates for certain special levies (see Royal Decree-Law 3/2016 of 2 December. BOE-A-2016-11475)

biennium, given the expected improvement in the labour market - which will reduce the amount of unemployment benefits - and the decrease in financial costs, which helps to reduce the burden of debt interest.

In this way, the economic cycle is expected to rectify the fiscal deterioration over the next two years. In a scenario without changes in fiscal policy, **the public deficit would be reduced to 3.1% in 2017 and 2.2% in 2018, in line with the stability objectives.** Thus, the projected deterioration in the primary structural balance would reach three tenths until 2018, in line with a progressive **moderation in the expansionary stance of the fiscal policy observed over the last two years** (see Figure 3.15).

In this scenario, the Government's forecasts contained in the update of the Stability and Growth Program (PEC) for 2017-18 are presumed achievable, at least in the short term. The Government is committed to keeping a ratio of public revenue slightly above 38% of GDP, favoured by the positive stance of the macroeconomic scenario, while public spending would continue to decline, aided by the application of the expenditure rule which places its growth below nominal GDP growth. In this way, it foresees that the cyclically adjusted primary balance will remain constant and around 0.1% of potential GDP; a scenario that is somewhat more optimistic than the balance estimated by BBVA Research.

Figure 3.15 Public administration: breakdown of fiscal adjustment, excluding bail-outs of financial institutions (% of GDP)



(p): projected.
(1) Includes changes in interest charges
(2) 2016: 0.6% structural deterioration + 1% expansive policies – 0.7% fiscal adjustment measures
Source: BBVA Research, based on Ministry of Finance and Public Administration and INE figures

The level of debt remains high and a risk

Thus, **Spain would leave the excessive deficit protocol in 2018, but will have to continue its efforts to ensure the achievement of medium-term objectives.** On the one hand, public debt will remain at still-high levels (estimated at 95.4% of GDP by the end of 2018), which is far from the legal limit of 60% of GDP. On the other hand, neither the government scenario nor the one presented by BBVA Research envisages an adjustment of the structural balance, thus failing to comply with the Commission's recommendation to make a structural improvement at an average rate of 0.5pp of annual GDP.

Alongside all this, there are risks regarding the application of the expenditure rule, especially in the regional tax offices, given the complexity of its calculation and the scarce relationship between this rule and the setting of stability objectives. Equally, the normalisation of the financial markets has placed on the agenda the need to offer the autonomous communities a way out from the different financing mechanisms that have been established. These, besides providing liquidity to the regional tax offices, have been shown to be the main instrument of fiscal discipline. All this suggests that **the main challenge of Spanish fiscal policy is the need to improve the regulatory framework in which it operates.**

The risks hanging over the scenario are still in place

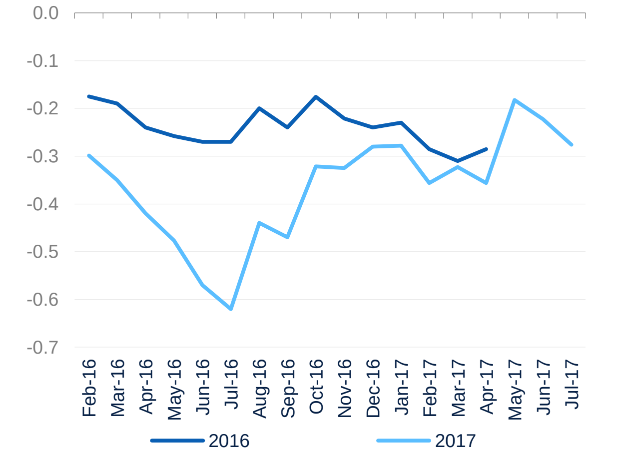
While the economic outlook for the biennium has improved, given the good performance of the external sector, investment and employment, external and internal risks remain in place regarding growth. At external level, the uncertainty regarding the evolution of global trade, linked to the direction that both commercial policy in the US, or how the negotiations on the UK leaving the EU will progress. Likewise, doubts remain about the timing and intensity of the withdrawal of monetary stimuli by the ECB. An unexpected and violent tightening of financing conditions would especially affect a leveraged economy like the Spanish one. On the other hand,, upcoming elections in some of the euro zone main economies (Germany in September and Italy in the early months of 2018) are additional unknown factors in the foreign panorama.

In the domestic environment, the effects of uncertainty on economic policy are reduced but do not disappear. According to BBVA Research estimates, this factor could continue to reduce growth by 0.2pp during the current year (see Figure 3.15)[18]. Looking forward, the **ability to generate consensus** on appropriate measures to underpin the recovery of activity and employment, and to improve the functioning of the economy in the long term, will be vital.

On the other hand, **inflationary pressures cannot be ruled out from next year**. BBVA Research estimates indicate that while the high level of unemployment may be preventing persistent price and wage spikes, for example, after rising commodity prices and minimum wage in early 2017, this element of contention could be running out. Thus, as cyclical unemployment is absorbed during the biennium –i.e. the unemployment rate approaches its structural level, it will increase the likelihood of observing, for example, increases in the remuneration of wage earners above long term expectations(see Figure 3.17). If this materializes and is not followed by improvements in productivity, they could adversely affect the competitiveness of companies, export growth and, above all, job creation.

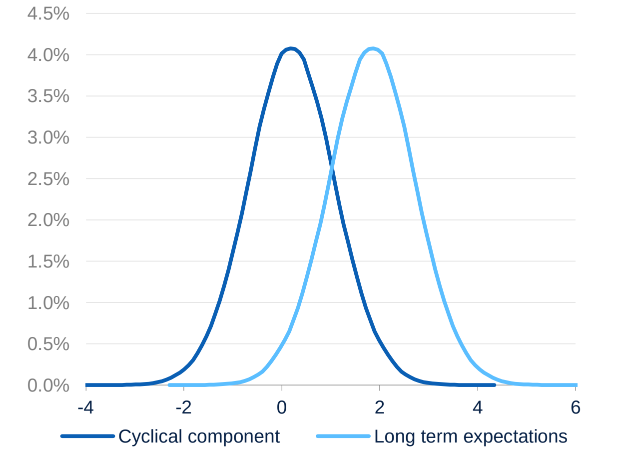
18: For details about estimating the effects of economic policy uncertainty on the Spanish economy, see Box 1 of the Spain Economic Outlook journal for the first quarter of 2016, available at: https://www.bbvaresearch.com/wp-content/uploads/2016/03/Spain_Economic_Outlook_1Q16.pdf

Figure 3.16 Spain: estimated impact of uncertainty regarding economic policy in GDP by forecast date (%)



Source: BBVA Research

Figure 3.17 Spain: probability distribution functions of wage inflation (2018)



Estimates made based on the NAWRU, using the remuneration per employee of the CNTR.
Source: BBVA Research

4. Tables

Table 4.1 Macroeconomic forecasts: Gross domestic product

(Annual average %)	2014	2015	2016	2017 (p)	2018 (p)
US	2.4	2.6	1.6	2.1	2.2
Eurozone	1.3	1.9	1.7	2.0	1.7
Germany	1.6	1.5	1.8	1.9	1.8
France	1.0	1.0	1.1	1.5	1.5
Italy	0.2	0.7	1.0	1.3	1.2
Spain	1.4	3.2	3.2	3.3	2.8
United Kingdom	3.1	2.2	1.8	1.5	1.1
Latin America*	0.8	-0.4	-1.3	0.8	1.6
Mexico	2.3	2.7	2.0	1.6	2.0
Brazil	0.5	-3.8	-3.6	0.6	1.5
Eagles**	5.4	4.7	5.0	5.0	5.1
Turkey	5.2	6.1	2.9	5.0	4.5
Asia and Pacific	5.6	5.6	5.6	5.2	5.2
Japan	0.2	1.1	1.0	0.8	0.9
China	7.3	6.9	6.7	6.5	6.0
Asia (ex. China)	4.2	4.5	4.6	4.1	4.4
World	3.5	3.3	3.2	3.3	3.4

(p): projected
* Argentina. Brazil. Chile. Colombia. Mexico. Peru. and Venezuela.
** Saudi Arabia. Bangladesh. Brazil. China. the Philippines. India. Indonesia. Iraq. Mexico. Nigeria. Pakistan. Russia. Thailand and Turkey.
Forecast closing date: 12 April 2017
Source: BBVA Research and the IMF

Table 4.2 Macroeconomic Forecasts: 10-year government bond yield

(Annual average %)	2014	2015	2016	2017 (p)	2018 (p)
US	2.53	2.13	1.84	2.36	2.62
Germany	1.22	0.52	0.13	0.44	1.14

(p): projected
Forecast closing date: 12 April 2017
Source: BBVA Research and the IMF

Table 4.3 Macroeconomic forecasts: Exchange rates

(Annual average %)	2014	2015	2016	2017 (p)	2018 (p)
USD-EUR	0.75	0.90	0.90	0.91	0.86
EUR-USD	1.33	1.11	1.11	1.10	1.17
GBP-USD	1.65	1.53	1.35	1.26	1.28
JPY-USD	105.82	121.07	108.82	113.70	118.50
CNY-USD	6.14	6.23	6.64	6.88	7.10

(p): projected
Forecast closing date: 12 April 2017
Source: BBVA Research and the IMF

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Table 4.4 Macroeconomic: Official interest rates

(End of period. %)	2014	2015	2016	2017 (p)	2018 (p)
US	0.25	0.50	0.75	1.50	2.00
Eurozone	0.05	0.05	0.00	0.00	0.25
China	5.60	4.35	4.35	4.35	4.10

(p): projected
Forecast closing date: 12 April 2017
Source: BBVA Research and the IMF

Table 4.5 EMU: macroeconomic forecasts (YoY change. %. unless otherwise indicated)

(End of period. %)	2014	2015	2016	2017 (p)	2018 (p)
GDP at constant prices	**1.3**	**1.9**	**1.7**	**2.0**	**1.7**
Private consumption	0.8	1.8	2.0	1.5	1.5
Public consumption	0.7	1.3	1.8	1.2	1.2
Gross fixed capital formation	1.6	3.0	3.4	4.3	3.1
Inventories (*)	0.4	-0.1	0.0	0.2	0.0
Domestic demand (*)	**1.3**	**1.7**	**2.1**	**2.2**	**1.6**
Exports (goods and services)	4.4	6.0	2.9	5.1	3.2
Imports (goods and services)	4.9	6.1	4.2	5.8	3.4
External demand (*)	**0.0**	**0.2**	**-0.4**	**-0.1**	**0.0**
Prices					
CPI	0.4	0.0	0.2	1.6	1.4
CPI core	0.9	0.8	0.8	1.1	1.4
Labour market					
Employment	0.5	1.0	1.4	1.4	1.2
Unemployment rate (% of labour force)	11.6	10.9	10.0	9.3	8.8
Public sector					
Deficit balance (% GDP)	-2.6	-2.1	-1.5	-1.2	-1.1
Debt (% GDP)	92.0	90.3	89.2	87.6	85.5
External sector					
Current account balance (% GDP)	2.5	3.2	3.3	3.0	2.9

(p): projected
Forecast closing date: 12 April 2017
Source: official organisations and BBVA Research

Table 4.6 Spain: macroeconomic forecasts (Annual rates of change in %. unless otherwise indicated)

(Annual average %)	2014	2015	2016	2017 (p)	2018 (p)
Activity					
Real GDP	1.4	3.2	3.2	3.3	2.8
Private consumption	1.6	2.8	3.2	2.7	2.4
Public consumption	-0.3	2.0	0.8	0.8	2.0
Gross Capital Formation	3.8	6.0	3.1	4.4	4.5
Equipment and Machinery	8.3	8.9	5.0	5.1	4.4
Construction	1.2	4.9	1.9	3.7	4.2
Housing	6.2	3.1	3.7	6.5	5.8
Domestic Demand (contribution to growth)	1.9	3.3	2.8	2.6	2.6
Exports	4.2	4.9	4.4	7.0	5.0
Imports	6.5	5.6	3.3	5.3	5.2
External Demand (contribution to growth)	-0.5	-0.1	0.4	0.7	0.1
Nominal GDP	1.1	3.7	3.6	4.5	5.3
(Billions of euros)	1037.0	1075.6	1113.9	1163.7	1225.9
GDP excluding housing	1.2	3,2	3,2	3,1	2,6
GDP excluding contruction	1.4	3,0	3,4	3,2	2,6
Labour market					
Employment, LFS (Labour Force Survey)	1.2	3.0	2.7	2.9	2.7
Unemployment rate (% of labour force)	24.4	22.1	19.6	17.1	15.3
Employment, (full time equivalent) QNA (Quarterly National Accounts)	1.1	3.0	2.9	2.7	2.3
Apparent productivity of labour force	0.3	0.3	0.4	0.6	0.5
Prices and costs					
CPI (annual average)	-0.2	-0.5	-0.2	1.9	1.7
CPI (end of period)	-1.0	0.0	1.6	1.2	1.9
GDP deflator	-0.3	0.5	0.3	1.2	2.5
Compensation per employee	0.0	0.4	0.0	0.6	1.7
Unit Labour Cost (ULC)	-0.3	0.2	-0.4	0.0	1.2
External sector					
Balance of payments on current account (% GDP)	1.1	1.4	1.9	2.0	1.9
Public sector (*)					
Debt (% of GDP)	100.4	99.8	99.4	98.3	95.4
Balance Public Admin. (% GDP) (*)	-5.9	-5.1	-4.3	-3.1	-2.2
Households					
Nominal disposable income	0.9	1.9	2.8	3.4	4.5
Savings rate (% nominal income)	9.1	8.4	8.0	7.0	7.2

Annual change in %. unless indicated expressly
(p): projected
Forecast closing date: 07 July 2017
(*): Excluding aid to Spanish banks
Source: BBVA Research

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5. Glossary

Acronyms

- AENC: Bipartite Inter-Confederal Agreement on Employment and Collective Bargaining
- APP: Asset Purchase Programme
- APR: Annual Percentage Rate
- BBVA: Banco Bilbao Vizcaya Argentaria
- BBVA – EAE: BBVA Economic Activity Survey
- BBVA – GAIN: BBVA Global activity index
- CDS: Credit Default Swaps
- CEOE: Spanish Confederation of Employers' Organizations
- CEPYME: Spanish Confederation of Small and Medium sized Enterprises
- CC. OO: Trade Union Confederation of Workers' Commissions
- CPI: Consumer Price Index
- EAGLES: Emerging and Growth-Leading Economies
- ECB: European Central Bank
- EMU: European Economic and Monetary Union
- EPU: Economic Policy Uncertainty Index
- EU: European Union
- EURIBOR: Euro interbank Offered Rate
- FCE: Final Consumption Expenditure
- FED: Federal Reserve System
- FTE: Full time equivalent
- GC: Governing Council
- GDP: Gross Domestic Product
- IC37: Group of Industrial Countries comprising the 28 EU members plus the US. Canada. Japan. Switzerland. Norway. Australia. New Zealand. Mexico and Turkey
- INE: National Institute of Statistics
- LATAM: Latin America aggregated including Argentina. Brazil. Chile. Colombia. Mexico. Peru and Venezuela
- LFS: Labour Force Survey
- ME and SS: Ministry of labour and social security
- MICA-BBVA: Factor Model of Economic and Financial Indicators for Short-term GDP Forecasting
- MINHAP: Ministry of Finance and Public Administration
- NAFTA: North American Free Trade Agreement
- OPEC: Organization of the Petroleum Exporting Countries
- PA: Public Administration
- QE: Quantitative easing
- ULCs: Unit labour costs
- US: United States
- UK: United Kingdom
- SMEs: Small and medium-sized enterprises
- SWDA: Seasonally and working day adjusted
- UGT: General Workers Union

Abbreviations

- bps: Basic points
- CI: Confidence interval
- MoM: Month on month change
- pp: Percentage points
- QoQ: Quarterly on quarter change
- YoY: Year on year change

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